



Neighborhood Economic Development Advocacy Project

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Jennifer J. Johnson
Secretary, Board of Governors
Of the Federal Reserve System
(12 CFR Part 230; Docket No. R-1197)
(Docket No. OP-1198)

Office of Comptroller of Currency (Docket No. 04-14)
Federal Deposit Insurance Corporation
Office of Thrift Supervision (No. 2004-30)
National Credit Union Administration

Re: Proposed Rule – Regulation DD
and Overdraft Protection Guidance

On behalf of the Neighborhood Economic Development Advocacy Project (NEDAP), we write to express our opposition to the Federal Reserve Board's proposal to regulate bounce loans, or "bounce protection," under the Truth in Savings Act (TISA). We strongly feel that bounce loans should be regulated under the Truth in Lending Act (TILA). We also urge the Board and the other federal banking regulators to take steps to halt abuses associated with bounce loans. Finally, we urge you to encourage banks to offer and promote alternative, sound forms of overdraft protection, including traditional overdraft lines of credit and overdraft protection linked to savings accounts or credit cards.

NEDAP is a resource and advocacy center that works with community groups to promote community reinvestment in low income neighborhoods in New York City. Established in 1995, NEDAP documents and exposes abusive lending patterns; trains community-based organizations on timely financial justice issues; and convenes groups in coalitions to press for corporate and regulatory accountability and meaningful policy reform.

NEDAP has conducted financial literacy trainings for hundreds of grassroots groups and lower income community residents throughout New York City, on topics ranging from how to open a bank account to avoiding financial scams and protecting assets. In recent months, we have conducted dozens of workshops for seniors, immigrants and young people on overdraft protection, outlining the differences between "bounce protection" and other forms of overdraft coverage. Not surprisingly, the average consumer is unaware of the distinctions between these services – or that bounce loans can be provided without their knowledge or consent.

Nevertheless, numerous participants in our workshop recognize bounce loans by their description and have recounted to NEDAP their experiences with this product. Their stories reflect the many concerns community groups and consumer advocates have with this product: they were charged high initial fees, plus additional fees (as high as \$5 per day) until the loan was repaid; they were unaware of having triggered the bounce protection until several weeks later;

and they believed they had a higher balance because of the inclusion of bounce protection in their account balances. Most alarmingly, problems arising from bounce protection have prevented many people from being able to open a new account, effectively forcing individuals out of the mainstream banking system.

We understand that the Board (along with all of the federal banking regulators) has explicitly recognized bounce loans as a form of credit, yet failed to regulate them under the key federal law governing credit disclosures. We support the comments submitted by the National Consumer Law Center and others, which contain suggestions for how to disclose the APR in a meaningful manner. Bounce loans are an extraordinarily expensive credit product. For example, a \$100 overdraft will incur at least a \$20 fee. If the consumer pays the overdraft back in 30 days, the APR is 243%. If the consumer pays the overdraft back in 14 days, the APR is 520%. Disclosing these costs as “fees” resembles tactics used by many high-cost lenders to mislead consumers about the true cost of credit.

In addition to requiring APR disclosures, we urge your agencies to prohibit banks from imposing bounce protection without the account holder’s consent, and to require banks to disclose to consumers the full range of overdraft options that are offered.

Overdraft protection can be a valuable and low-cost service, and helpful to newly banked individuals who are unaccustomed to using a checking account. We are, however, dismayed by the increasing number of banks offering what is essentially a sanitized version of payday loans. Like payday loans, bounce loans are exorbitantly expensive; are advertised to consumers as an easy source of credit; and are targeted to lower income consumers. Unlike payday loans, bounce loans are imposed without affirmative consumer consent; are not accompanied by APR disclosures; and are directly offered by trusted mainstream banking institutions – making them in some ways even more egregious than their fringe counterparts.

Bounce loans, a deceptive and overpriced product, undermine long-standing efforts to bring unbanked consumers into the financial mainstream. Indeed, we have seen that the high fees associated with this product – and the damage it can cause to a consumer’s ChexSystems rating – have not only discouraged people from opening accounts, but have forced already-banked consumers out of the banking system.

Community groups, consumer advocates, Treasury and others have long agreed that bank accounts are safer and cheaper than going to check cashers or keeping large amounts of cash at home. We hope that you will take steps to address abusive bank products such as bounce loans, which undermine the credibility and integrity of your regulated institutions.

Thank you for your attention to this critical matter.

Sincerely,

Deyanira Del Río
Director of Programs